VZCZCXYZ0000
PP RUEHWEB

DE RUEHLGB #0862/01 3541009
ZNR UUUUU ZZH
P 191009Z DEC 08
FM AMEMBASSY KIGALI
TO RUEHC/SECSTATE WASHDC PRIORITY 5793
INFO RUEHDS/AMEMBASSY ADDIS ABABA 0218
RUEHBS/AMEMBASSY BRUSSELS 0358
RUEHJB/AMEMBASSY BUJUMBURA 0457
RUEHDR/AMEMBASSY DAR ES SALAAM 1271
RUEHKM/AMEMBASSY KAMPALA 2047
RUEHKI/AMEMBASSY KINSHASA 0597
RUEHLO/AMEMBASSY LONDON 0371
RUEHNR/AMEMBASSY NAIROBI 1379
RUEHFR/AMEMBASSY PARIS 0630

UNCLAS KIGALI 000862

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON EFIN EINV ENRG ETRD PGOV OPIC RW
SUBJECT: RWANDA MINING REVIEW - NEW INVESTMENT, STRONG GROWTH

REF: A. KIGALI 417
¶B. KIGALI 818

¶1. (U) Summary: Since privatization in early 2007, the Rwandan mining sector has experienced a surge in foreign investment and explosive growth of export earnings. 2008 mineral exports are expected to grow to over $100 million from $70 million in 2007 and less than $40 million in 2006. While trans-border trade from the Democratic Republic of the Congo (DRC) continues to contribute significantly to total mineral exports, domestic mineral production and processing attracted $105 million in new foreign investment over the last two years and employs an estimated 50,000 Rwandans. The current downturn in global commodity prices will likely negatively impact demand for minerals in 2009, but with lower energy costs expected by 2012 (ref a) the mining sector will likely continue to play a key role in generating export earnings and new jobs. End summary.

Growing Exports

¶2. (U) In the last five years, Rwandan mineral exports have exploded both in terms of total revenue and as a percent of total exports. From 2003 to 2008, mineral exports grew from $10 million (less than 20 percent of total exports) to over $100 million, representing 40 percent of total export earnings. In the last two years, mineral exports have outperformed the combined total exports of traditional exports tea and coffee (in 2008 total coffee and tea exports are expected to be $75 million). The key minerals being mined and traded in Rwanda are cassiterite (used for tin), wolframite (used in tungsten), colombo-tantilite (used for coltan) and gold. There is also increasing interest in local mining of construction materials such as granite, clay, Kaolin (used in ceramics) and peat.

¶3. (U) Rwanda is part of the same geological formation of highly mineralized Kibaran Rocks that extends from northern Tanzania through western Uganda to southeastern DRC and Angola. Mining and exploration concessions are located throughout Rwanda, but until recently exploration and exploitation were largely artisanal. Weak management of government-owned mining concessions contributed to limited investment in new exploration. Similarly, lack of investment capital and high energy costs resulted in small scale, labor intensive and inefficient production sensitive to world market fluctuations.

Growth Fueled by Privatization and New Foreign Investment
-- ------------

¶4. (U) The privatization of the sector in 2006 brought in new foreign investors to acquire 16 of 20 government-owned concessions, and stimulated new exploration throughout the country. Russian, British, American, Austrian, German and South African companies are actively expanding production at previously government-owned mining concessions and using modern exploration techniques to map new deposits. According to statistics from the Rwanda Development Board, since 2006, foreign direct investment (FDI) in the mining sector has exceeded $100 million. Investment has gone towards basic mining equipment (such as jack-hammers, compressors, explosives and backhoes), training in basic safety and mine management, infrastructure (roads, buildings, community clinics) and new exploration. Such basic investment has Qclinics) and new exploration. Such basic investment has delivered impressive results. In the last 18 months, South African-owned Eurotrade has increased wolfram production in its concession from 18 tons annually to over 400 tons and increased employment from 135 workers to close to 1,000 (ref b). EuroTrade's Managing Director expects mine production will increase to 2,000 tons annually as the company introduces new equipment and mining technology.

¶5. (U) Most of the development of the mining sector has been driven by private investors with negligible involvement by the government, IOs and NGOs. World Bank Country Manager Victoria Kwakwa told conference attendees that the "World Bank is not heavily engaged in Rwanda's mining sector" and (after hearing presentations from the private sector) noted

"the sector's potential for growth and economic diversification dispels the prevailing notion that Rwanda has no mining potential and that all exports are re-exports." The primary focus of the World Bank and GOR in the mining sector has been on legislative reform, regulatory reform and capacity building.

A Closer Look at Key Players

¶6. (U) Key private sector players in the Rwandan mining sector include British-owned African Primary Tungsten (a subsidiary of ABS Industrial Resources Group) Russian-owned ROGI Mining, Canadian-owned Kivu Gold, South African-owned Transafrika (owned by founders of Eland Platinum), Austrian-owned Wolfram Mining and Processing (subsidiary of Wolfram Berghart Hutton WBH), German-owned Natural Resources Development (H.C. Starck is the major shareholder), British-owned Metal Processing Association (subsidiary of Kivu Resources), American-owned Bay View Group and South African-owned Eurotrade International.

¶7. (U) For most of these companies, the pattern of investment follows a similar trend beginning with basic up-grading of existing artisanal mining concessions -- including investment in infrastructure, equipment and training -- while undergoing more sophisticated exploration and feasibility studies to evaluate the economics of modern large scale production. Most investors are optimistic about the sector and are projecting sizable increases in investment and revenue over the next five years.

¶8. (U) Metal Processing Association (MPA): MPA is owned by Kivu Resources headquartered in the UK which in turn has interests in both the DRC and Rwanda. Rwanda-based MPA operates a tin smelter in Gisenyi using raw materials produced both in Rwanda and from its sister company in the DRC, Mining and Processing Congo (MPC). Through MPA, Kivu Resources is also a joint venture partner with the GOR in the 21,000 hectare Gatumba Mining Concession. Investment in the tin smelting facility and concession have exceeded $4 million since 2006 and been focused on infrastructure development and advanced geological modeling and resource estimation. Based

on planned investment, the group projects an increase in annual turnover from $21 million in 2008 to $85 million in ¶2012.

¶9. (U) Transafrika: Transafrika is a minerals (primarily gold) exploration company domiciled in Mauritius with exploration permits covering 220,000 square kilometers in Africa. In Rwanda, Transafrika has three exploration permit areas totaling 100,000 hectares granted by the GOR in November 2007. Management asserted to conference participants that Rwanda fulfills key investment criteria including a stable country operating environment, clear mineral rights legislation and the potential for discovering sizable deposits. Since 2006, the company has invested over $13 million in its concession including geological modeling, soil sampling and exploration drilling.

¶10. (U) African Primary Tungsten (APS): APS is a subsidiary of UK-based ABS Industrial Resources Group which is active in specialty metals and has subsidiary operations in France, Germany, South Africa and Rwanda. APS has been operating in Rwanda since 2002 and during the last 5 years has invested close to $28 million in the country including excavators,
Qclose to $28 million in the country including excavators,
tractors, water pumps and other mining equipment. APS Managing Director J.P. Higiro told conference participants that annual yields of wolfram have increased from 80 tons in 2004 to 800 tons in 2007. The quality/purity of wolfram produced has also improved from 50 to 60 percent during the same period. The company employs over 500 direct and indirect hires.

¶11. (U) Natural Resources Development (NRD): Since 2006 NRD has invested nearly $40 million into five mining concessions covering over 32,000 hectares in west and south Rwanda. The company employs 1,500 contract workers and has been upgrading access roads, reconstructing bridges and drainage canals, building housing and offices and equipping concessions with power and water. The NRD Managing Director noted in a

presentation honoring International Miners Day the company takes a long term perspective to its investment in Rwanda and is seeking to transform its concessions from an artisanal basis to modern technology. NRD has also invested in advanced exploration techniques including use of ground penetrating radar.

¶12. (U) Wolfram Mining and Processing (WMP): Since 2007, WMP has invested $12 million in its 5,635 hectare concession in Gifurwe, northwest of Kigali. The company employs 900 workers and is producing wolfram for the international tungsten market. WMP's Austrian parent company markets tungsten for uses such as light filaments, and to harden metals used for armor and cutting tools. WMP management noted that the tungsten market is closely tied to the auto industry and they expect demand for wolfram to drop in the near term as a result of the current global downturn. Like NDR, WMP sees its investment in Rwanda as a long-term investment.

Trans-border Trade Still Important

¶13. (U) Domestic mineral production represented approximately 25 percent of total tons exported in 2007, the balance being minerals trans-shipped from the DRC (ref b). According to Central Bank figures, however, raw material costs represent only 39 percent of the total value of exported minerals - thus much of the value of final exports is added in Rwanda. Added value such as smelting, processing, transport, taxes, financial fees, service fees and remunerations account for 61 percent of the total value of mineral exports. As Rwanda ramps up domestic production and adds processing capacity, the percentage of total export value derived from unprocessed minerals re-exported from the DRC is likely to decline. Assuming Central Bank numbers are accurate, we can roughly estimate the value of unprocessed minerals brought in from

the DRC (before added value, fees and other re-export costs) in 2008 to be $25-30 million, less than one third of total exports.

¶14. (U) The GOR is seeking to position Rwanda as a regional trading hub that will act a service center for the consolidation of minerals and light processing. The GOR markets Rwanda to investors as a politically and economically stable state located in the heart of mineral-rich central Africa that can serve as a base for processing, logistics, administrative and financial services for the industry. MPA, which imports cassiterite from its sister company in the DRC, smelts tin in Rwanda and exports tin ingots to its parent company in Europe, provides a model for this vision.

Outlook

¶15. (U) Export earnings and mineral production are likely to slump in 2009 due to recession in the advanced economies. Trans-border trade and Rwanda's artisanal mining industry are highly elastic and sensitive to global commodity price fluctuations. However, foreign investment in the mining sector is likely to continue due to discovery of new deposits and long-planned-for modernization of existing concessions. Rwanda's political and economic stability is attractive to the long-term investment requirements of the mining industry and new mining legislation currently in parliament will further favor more private investment. The growing demands of the domestic construction industry will also provide
Qof the domestic construction industry will also provide
incentives for the private sector to invest in the production of locally made building materials from exploitable domestic resources.

¶16. (U) A key deterrent to expansion of Rwanda's mining and mineral processing industry has been the country's high cost of energy, currently the highest in the region. Transforming the industry from artisanal to modern technology requires plentiful and affordable power to run the compressors, water pumps, smelters and processing equipment. New energy sources including methane from Lake Kivu, hydro and geothermal coming on line over the next five years (ref a) are expected to triple Rwanda's power generation capacity and reduce costs by half. This is good news for the mining industry and will likely boost further investment in value added mineral processing.

¶17. (U) Comment: Rwanda's mining and minerals processing sector has been oft overshadowed by a history of illegal or quasi-legal trans-border trade with the DRC. While some press and other observers suggest this illegal trade continues unabated, the GOR and many Rwanda-based minerals companies assert there is also a growing legitimate minerals trade between the two countries and an increasingly important extractive and processing industry in Rwanda. The challenge for Rwanda is to leverage its symbiotic economic ties with neighboring DRC and expand legitimate border trade for the benefit of communities on both sides of the border. With new energy sources becoming available in the near future, both countries have much to gain by expanding on this relationship.

SYMINGTON